

S.B. 20. AAC THE ASSESSMENT METHODOLOGY USED BY THE INSURANCE
DEPARTMENT AND THE OFFICE OF THE HEALTHCARE ADVOCATE.



Testimony of Gary J. Vallo
Chief Executive Officer
Middlesex Mutual Assurance Company

Submitted to the Insurance
and Real Estate Committee

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Good afternoon Senator Crisco, Representative Megna, and distinguished members of the Insurance and Real Estate Committee. My name is Gary Vallo; I am Chief Executive Officer of Middlesex Mutual Assurance Company, headquartered in Middletown, Connecticut.

It is my pleasure to appear before you this afternoon to speak in support of Senate Bill 20, An Act Concerning the Assessment Methodology Used by the Insurance Department and the Office of the Healthcare Advocate. Senate Bill 20 changes the assessment method funding the cost of the Department of Insurance to include all insurance companies, whether foreign or domestic.

As the members of this committee know, the Department of Insurance operating budget is not funded by the State's General Fund. Instead, under statutory authority, its budget – which is slightly more than \$24 million – is derived from an assessment that it applies to the Connecticut domiciled companies it regulates.

While the Department of Insurance regulates the entire industry of approximately 1,200 companies writing policies in Connecticut, it is funded only by 104 Connecticut domiciled companies – less than 10 percent of the industry. These 104 domestic companies include companies with their home offices here in Connecticut, such as our company Middlesex Mutual, which has been a Connecticut domiciled company since 1836.

Foreign insurers – those who are domiciled in other states – pay nothing. The disparity between the tax burden borne by foreign and domestic insurers creates an unequal playing field for Connecticut domiciled companies like Middlesex Mutual. It is for this reason that almost all other states assess both foreign and domestic companies in funding their Departments of Insurance.

The unfair burden borne by domestic insurers has dramatically increased in recent years as insurance companies, for a variety of reasons, have re-domesticated all or part of their operations to other states. Companies like Middlesex Mutual, which continue to call Connecticut home but now constitute a much smaller tax base, have seen their assessments skyrocket. The result is a 56% increase in assessments since 2004 on only Connecticut companies and not on our foreign competitors. (See the attached spreadsheet.) Indeed, today the four largest private passenger automobile insurers in terms of market share – all domiciled outside Connecticut – pay nothing.

This is not merely inequitable in terms of its impact upon domestic insurance companies competing for customers here in Connecticut; it also creates a severely unfriendly business climate for those insurance companies, like Middlesex Mutual, who have chosen to incorporate and domesticate here in Connecticut. And left unchecked, current policy serves as compelling motivation for companies to re-domesticate to virtually any other state where assessments are made on all companies rather than just domestic insurers.

A simple adjustment to the method of calculating the annual assessment, from its current method of assessing only those companies domiciled in Connecticut, to assessing all companies, foreign and domestic which operate and write business in Connecticut, would serve to level the playing field and broaden the tax base. Let me say it again – virtually all other states in the country assess all companies that write policies in those states. This change would result in fairer assessments for Connecticut domiciled companies, and serve to create a level playing field within which all companies would operate.

You will no doubt hear arguments that changes to this methodology will create a retaliatory tax issue for Connecticut-domiciled companies in other states. But in point of fact, this is not a compelling concern and here's why:

Connecticut's premium tax rate of 1.75% is among the lowest in the country – well below the national average. There are only 15 states with the same or lower premium tax rate than Connecticut. That means there would be no retaliatory tax threat in the other 35 other states. Among the states with tax rates at or below that of our state, it is important to note that they typically impose additional tax burdens, such as fire taxes or income taxes, which would further minimize the retaliatory tax impact to Connecticut companies if the assessment arrangement were changed to include all insurance companies operating here in Connecticut. With respect to insurance companies domiciled in those 35 higher tax states, they would not incur any additional tax costs because imposing any Connecticut assessment on them would actually reduce their retaliatory tax burden. In sum, the retaliatory tax issue may be an argument that foreign insurers use to maintain the status quo under which they pay nothing. The fact is that the current system represents, in effect, a “retaliatory tax” on Connecticut domestic insurance companies which are penalized for calling Connecticut home.

In summary, I urge your support of Senate Bill 20 on the basis that it will create a level playing field for insurance companies domiciled in Connecticut.

- It will help keep local domiciled insurance companies and jobs here in Connecticut.
- It will make Connecticut a more attractive state to domicile for companies seeking to return or re-locate.
- It will broaden the financial base across all insurance companies over which the assessment is levied and which are regulated by the Department of Insurance.
- It will help local independent agents compete for business by keeping local insurance companies, upon which agents rely, here in Connecticut.
- And it will align Connecticut's assessment methodology with most other States.

Thank you for your time and attention. I would be pleased to answer any questions that you might have.

Increase in Connecticut Domiciled Insurance Companies Assessments 2004-2010

Basis Year	Tax Liability of CT Domiciled	Gross Insurance Department Assessment	Assessment per \$100 of CT Tax Liability (1.75% tax rate)
2004	\$94,446,187	\$21,610,275	\$22.88
2005	\$98,654,417	\$22,494,859	\$22.80
2006	\$101,140,468	\$23,410,652	\$23.15
2007	\$110,521,880	\$23,821,812	\$21.55
2008	\$75,691,539	\$25,181,232	\$33.27
2009	\$72,317,146	\$26,295,406	\$36.36
2010	\$74,553,390	\$26,621,617	\$35.71

(Source: Annual Assessment Notices from Connecticut Department of Insurance)